



# Financial Reporting Bulletin

## March 1999

• **Office of Thrift Supervision** •  
• **Office of Research and Analysis** • **Financial Reporting Division** •  
1700 G Street, N.W., Washington, DC 20552

**TFR DEADLINE FRIDAY, APRIL 30, 1999**

**CMR DEADLINE MONDAY, MAY 17, 1999**

**It is important that you refer to this bulletin and the attached materials  
before submitting your March TFR.**

### UPDATED SOFTWARE FOR 1999

By the end of March, all savings associations should have received the March 1999 electronic filing software from DPSC, Inc. The updated version corrects errors in the previous version and adds and updates edits.

#### **Changes to DPSC Electronic Filing Software**

- Revised software to reflect caption changes on the 1999 TFR form and modification of the calculation of CCR830 (see the explanation in the Summary of Changes to the Thrift Financial Report Instruction Manual).
- Moved BOS tab to rightmost position so that it is no longer between TFR and CMR.
- Added print option for institution setup information and structural change questions.
- Added print option to print partial set of edit steps.
- Revised Schedule SB edit to pass all edit steps when no relevant loan balances are reported on Schedule SC (i.e., SC260, SC300, SC303, and SC306).
- Updated parameters to Schedule SC edit steps B100:B373.
- Revised Schedule CMR edit steps to accommodate TB 13a (see the explanation in the Summary of Changes to the Thrift Financial Report Instruction Manual). The following steps were affected: R135, R137, R138, R253, R302, R303, R345, R346, R347, R348, R491, R552, R553, R554, and R557. Edit step R175 has been added.

**It is important that you install the most current software before preparing and transmitting your March reports. If you have not received the software update by March 22, please contact DPSC Customer Support at 800-825-3772.**

The "Financial Reporting Bulletin" is published quarterly by the Financial Reporting Division of the Office of Thrift Supervision and distributed to all OTS regulated institutions. Its purpose is to provide the Thrift Financial Report preparer with reporting information and guidelines. Comments and suggestions on this bulletin should be sent to Patrick G. Berbakos, Director, Financial Reporting Division, Office of Thrift Supervision, at the above address, or by e-mail to [patrick.berbakos@ots.treas.gov](mailto:patrick.berbakos@ots.treas.gov).

## FIRST QUARTER REGULATORY REPORTS

The March 1999 TFR should be completed and submitted as soon as possible after the close of the quarter. All schedules except CMR are due no later than Friday, April 30, 1999. Schedule CMR is due no later than Monday, May 17. Savings institutions that are exempt from filing Schedule CMR but choose to voluntarily file must follow the same filing deadlines as those institutions that are required to file. Institutions that fail to meet the filing deadline may not receive their Interest Rate Risk reports for the quarter.

If you have any questions concerning the preparation of your report, please call your Financial Reporting Division contact in Dallas, TX, or Trudy Reeves in Washington, DC, at 202-906-7317. If you have a problem with the electronic filing software or transmission, call Cheyann White at 972-281-2412 or Doris Jackson at 972-281-2052. If you need additional copies of the TFR form or instruction manual, call 202-906-6078, or obtain them from the OTS website at [www.ots.treas.gov/tfrpage.html](http://www.ots.treas.gov/tfrpage.html). The TFR form is also available on OTS' Publifax at 202-906-5660 by requesting document number 78128.

## MARCH 1999 CHANGES TO THE TFR INSTRUCTION MANUAL

Attached are 101 pages of the TFR Instruction Manual, which have been updated for March 1999. All pages are dated March 1999, and the revisions are indicated by a bar in the right margin. Many of the changes are editorial in nature, to help clarify the instructions. Because a large number of pages in Schedule CCR have been replaced, we are enclosing the entire Schedule CCR. The other updates consist of individual pages that should be replaced in your TFR Instruction Manual. The changes to the manual are summarized in an attachment to this Bulletin.

## 1999 THRIFT FINANCIAL REPORT

As previously announced, the OTS made no changes to the TFR form for 1999, to allow thrift institutions to concentrate on year 2000 compliance issues.

The 1999 TFR is the same as the 1998 version, except for minor caption changes primarily to accommodate SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." No data lines in the form have been added or deleted and no field numbers have been changed. The following line caption edits have been made:

### **Schedule CF**

#### **CF360: Refinancing Loans**

Delete the phrase "Included on Lines 190 thru 270 Above" because effective with the June 1998 TFR all refinancings are reported on this line even if no new funds are disbursed.

### **Schedule CCR**

#### **CCR102: Accumulated Losses (Gains) on Certain Available-for-Sale Securities and Cash Flow Hedges, Net of Taxes**

#### **CCR137: Accumulated Losses (Gains) on Certain Available-for-Sale Securities and Cash Flow Hedges**

Include in the adjustment to capital and assets accumulated gains and losses on cash flow hedges, pursuant to SFAS No. 133, to comply with the interim guidance on the regulatory reporting and capital treatment for derivatives, which was issued in December 1998.

**Schedule CMR**

**CMR, Form page 34, Heading: Financial Derivatives and Off-Balance-Sheet Positions**

**CMR, Form page 37, Optional Supplemental Reporting for Financial Derivatives and Off-Balance-Sheet Positions**

Include with the off-balance-sheet positions, derivatives that are on-balance-sheet pursuant to SFAS No. 133. (See revised instructions for December 1998.)

**QUALIFIED THRIFT LENDER TEST**

On January 28, 1999, the OTS issued and mailed Regulatory Bulletin 32-9 to all insured savings associations. Distributed with the bulletin was a new Thrift Activities Regulatory Handbook Section 270, Qualified Thrift Lender (QTL) Status. A summary of the changes appears on the cover page of the bulletin which includes comments regarding certain definitions which have been added. The new handbook section updates QTL guidelines, and includes a QTL worksheet with instructions for the preparation of the HOLA QTL test. Revisions are indicated by boldly marked change bars in the margins.

The worksheet line items for the HOLA test remain the same as in the previous edition; however, the OTS clarified some of the instructions for its preparation. While there is no worksheet for the IRS test, the new handbook section includes the IRS statute and rule as appendices for reference.

This bulletin may be accessed at our web site: <http://www.ots.treas.gov/docs/74032.pdf> and is available on OTS' Publifax at 202-906-5660 by requesting document number 74032.

**TFR TRAINING PLANS**

The OTS plans to offer TFR training later this year at the OTS Midwest training facility located in Dallas, Texas. We project that the training will be a one-day session targeted specifically for the employee(s) who is directly responsible for preparing and transmitting regulatory reports. We are currently in the process of developing the content of the training course.

The training will emphasize the following:

- an overview of the OTS organization and mission
- TFR preparation
- utilization of the electronic filing software
- researching reporting questions on the Internet

We welcome your comments and suggestions; please submit them to Patrick G. Barbakos, Director, Financial Reporting Division, at the address in the heading of this Bulletin or by e-mail to [patrick.barbakos@ots.treas.gov](mailto:patrick.barbakos@ots.treas.gov). In an effort to make the training more affordable, enabling as many report preparers to attend as possible, the training will be offered by the OTS free of charge. Transportation and lodging will be the responsibility of the attendees. More information will be available in the June edition of the Financial Reporting Bulletin.

**Y2K "END-TO-END" TESTING OF FINANCIAL REPORTING PROCESS A SUCCESS**

In 1996 the OTS began to actively address the conversion of its internal systems to incorporate Y2K modifications. As of October 1998, all mission-critical systems, including the electronic filing software, had been renovated for Y2K compliance, and all changes had been tested and implemented. The OTS conducted Y2K certification testing of the financial reporting process at the agency's Remote Disaster Recovery Center in June and October of last year. The testing verified expected results. The systems accurately processed date/time data from, into, and between the twentieth and twenty-first centuries, and the years 1999 and 2000.

To further ensure Y2K conversion integrity, the industry participated for the first time in Y2K compliance testing. A representative number of volunteer thrifts differing in asset size and geographic location par-

ticipated in "end-to-end" testing of the electronic filing software, which added authenticity to the process and served as a "proxy" for all institutions that are regulated by the Office of Thrift Supervision.

The test involved all aspects of the financial reporting process, including testing of the electronic filing software provided by our software vendor, DPSC Software, Inc., the Sprint telecommunication network, and the five internal mission-critical systems which support the data collection, edit, and output of information collected via the financial reporting process.

A simulated Y2K environment was created to allow for the input of aged dates. Two test cases were performed involving the preparation and transmission of the TFR by the industry participants including Schedule CMR. Test Case 1 required the participants to advance their respective PC clocks to January 6, 2000, and enter and transmit December 1999 quarter-end TFR and CMR test data. Test Case 2 required the participants to advance their PC clocks to April 6, 2000 and transmit simulated March 2000 quarter-end TFR and CMR test data. Actual TFR and CMR edit-clean data reported for both the June and September 1998 reporting cycles were used as the test data. This was done to ensure that the edit results in the simulated environment replicated what actually occurred in the June and September 1998 reporting cycles.

The preliminary results indicate that both the internal and external systems that support the preparation, transmission, edit, and output of required financial reports accurately processed all test data. Test results are being verified and will be posted on the OTS web site in early April and published in OTS' newsletter, MMillennium.

## SOFTWARE CORNER

### **EDIT EXCEPTIONS REQUIRE USERNOTES**

When processing your report (TFR, CMR, COF) through the Edit Check feature, all Reasonableness Checks or Edit Step exceptions should be explained in a Usernote that you can transmit to the OTS with your report.

These Usernotes assist the OTS in reviewing the accuracy of your data, and become a permanent part of your report within the edit system. They are not included in the FOIA copy of your report that is distributed to the public.

The Usernote function is simple to use:

1. Complete your financial report (original or amendments)
2. Perform Edit Checks
3. Review and research each edit exception
4. Enter explanation(s) in Usernote (press TAB to get to the message box)
5. Print and review Edit Checks (keep a hard copy for your files)
6. Transmit report and Usernote

For more detailed instructions on using the Usernote function, refer to Chapter 4 in your DPSC User Manual.

### **NEW SOFTWARE**

You should receive the March 1999 version of DPSC filing software in mid-March. If you have not received your new software by March 22, 1999, please contact DPSC Customer Service at DPSC, 800-825-3772, ext. 210.

### **TRANSMISSION SCHEDULE**

Remember that you can transmit any of your reports (TFR, CMR, COF, BOS, amendments) any day of the month, 24 hours a day, seven days a week. Our system "never closes".

### **TRANSMISSION PROBLEMS**

If you have problems transmitting multiple reports, try sending them one at a time.

Please DO NOT fax your TFR or CMR reports to the OTS, even if you are having transmission problems. All TFR and CMR filings must be received electronically. For further instructions, call Cheyann White at 972/281-2412 or Doris Jackson at 972/281-2052.

### **COMPUTER SYSTEMS CONVERSIONS**

As we all know, even the simplest, most harmless-looking computer conversion (does such a thing actually exist?) can become a real nightmare. If at all possible, try to schedule any conversion after your OTS quarterly reports have been transmitted. Please be sure you have a "back-up" plan to complete and transmit your reports to the OTS by the filing deadline before you begin a system conversion.

### **CONVERSION TO WINDOWS**

You can upgrade from the DOS to the Windows version of the filing software by contacting DPSC Customer Service at 800-825-3772, ext. 210.

*Each quarter, the Software Corner addresses questions, problems, helpful tips, etc., regarding the OTS electronic filing software. If you have a topic you would like to see discussed in the Software Corner, please send your comments and questions to Doris Jackson via fax at 972-281-2002, or via the Internet at [doris.jackson@ots.treas.gov](mailto:doris.jackson@ots.treas.gov).*

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## Questions & Answers

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**Q&A No. 54**

**SUBJECT:** CMR Filing Exemption  
**LINE(S):** Schedule CMR  
**DATE:** March 1, 1999

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**Question:** *I have completed and transmitted our December TFR. Our capital ratio has just exceeded 12% and our assets continue to be under \$300 million. Do we have to file Schedule CMR for December?*

**Answer:** Yes. As stated in the TFR General Instructions, an institution must meet the exemption requirements (assets under \$300 million **and** risk-based capital ratio over 12%) for **two consecutive quarters** to be exempt from filing CMR. The regional director also has the authority to exempt an institution from filing CMR. See the TFR General Instructions for more information.

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**Q&A No. 55**

**SUBJECT:** Grandfathered Qualifying Multifamily Mortgage Loans  
**LINE(S):** CCR465  
**DATE:** March 1, 1999

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**Question:** *Does the grandfathering right transfer to the purchaser of multifamily mortgage loans? An institution is going to purchase a large amount of these loans, and they would like to risk weight them at 50% rather than at 100 %.*

**Answer:** The loans may be risk-weighted at 50% by the purchaser if, on March 18, 1994, the loans qualified under the definition of a "qualifying multi-family mortgage loan" as set forth in 12 C.F.R. 567.1 and (as per the instructions at page 159 of the TFR Instruction Manual) the loans met and continue to meet the qualifying criteria before, upon, and after purchase.

Q&amp;A No. 56

**SUBJECT:** Valuation of Foreclosed Assets**LINE(S):** SC40**DATE:** March 1, 1999

**Question:** *At acquisition, the initial carrying amount of foreclosed assets should be established at "fair value less cost to sell". How should the estimated future selling costs be treated - as a reduction in the recorded investment, or as a specific valuation allowance?*

**Answer:** We believe that the authoritative literature (SFAS No. 15 as amended, and SFAS No. 121) requires that, at acquisition: (1) the recorded investment of foreclosed assets be established at "fair value less cost to sell", and therefore (2) no specific valuation allowance be established for the selling costs. In other words, the selling costs are to be treated as a reduction in the initial recorded investment of the foreclosed assets.

For example, assume a foreclosed asset with an estimated fair value of \$90 is received in full satisfaction of a delinquent loan (with a recorded investment of \$100). Also assume that estimated future selling costs related to the foreclosed asset are \$7, so that "fair value less cost to sell" is \$83. Under the approach we believe to be consistent with the authoritative literature, at acquisition the initial carrying amount would be established at \$83, composed of a recorded investment of \$83, with no specific valuation allowance. Further assume that, subsequent to acquisition, the estimated fair value increases by \$5, to \$95. This would not result in an increase in carrying amount; that is, the carrying amount would continue to be \$83, composed of the recorded investment of \$83, with no specific valuation allowance.

We recognize that some institutions treat the initial estimate of selling costs as a specific valuation allowance. However, we believe that approach is inconsistent with the authoritative literature. But, because the amount of selling costs generally is not substantial in relation to the fair value, the effect is not expected to be material.

### Authoritative Literature

The following is paragraph 28, in its entirety, of SFAS No. 15, as amended by paragraph 24 of SFAS No. 121.

A creditor that receives from a debtor in full satisfaction of a receivable either (i) receivables from third parties, real estate, or other assets, or (ii) shares of stock or other evidence of an equity interest in the debtor, or both, shall account for those assets (including an equity interest) at their fair value at the time of restructuring (see paragraph 13 for how to measure fair value). *A creditor that receives long-lived assets that will be sold from a debtor in full satisfaction of a receivable shall account for those assets at their fair value less cost to sell, as that term is used in paragraphs 15-17 of FASB Statement No. 121. The excess of (i) the recorded investment in the receivable satisfied over (ii) the fair value of assets received (less cost to sell, if required above) is a loss to be recognized. For purposes of this paragraph, losses, to the extent they are not offset against allowances for uncollectible amounts or other valuation accounts, shall be included in measuring net income for the period.*

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Q&A No. 57

**SUBJECT:** QTL - Reorganized Entity  
**LINE(S):** SI581, SI582, SI583  
**DATE:** March 1, 1999

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**Question:** *An institution reorganized on 9/30/98 and because of the circumstances, was given a new OTS docket number. The new institution reported only one day of information on the TFR, and, therefore, reported its QTL as zero. Do you think it would be more meaningful to have this TFR amended to report the QTL of the former institution?*

**Answer:** Yes. The HOLA does not provide for any exceptions due to an institution's "reorganization." Thus, for QTL purposes the OTS must treat the institution as the same institution before and after its reorganization, despite its different docket numbers.

For the OTS to monitor the institution's QTL compliance, the institution should have reported its ATIPs for July 31, 1998, August 31, 1998, and September 30, 1998, in its September 30, 1998 Thrift Financial Report. The July 31 and August 31 percentages should have been for the institution as it existed under the old docket number, and the September 30 percentage for the new docket number.

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## Q&amp;A No. 58

**SUBJECT:** Delinquent FHV/VA Loans Purchased from GNMA Pools  
**LINE(S):** Schedule PD  
**DATE:** March 1, 1999

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**Question:** *An institution that services GNMA pools purchases past due loans from these pools. The institution then sells both the servicing and the loans to another institution. Is the new owner/servicer allowed to exclude these loans from Schedule PD as long as they remain delinquent?*

**Answer:** A third party purchaser **cannot** exclude these delinquent loans from Schedule PD. These loans may be excluded from Schedule PD only by the servicer that purchases them pending FHA/VA resolution.

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## Q&amp;A No. 59

**SUBJECT:** Securities Reclassified from Available-for-Sale  
**LINE(S):** SC860, CCR102, CCR137  
**DATE:** March 1, 1999

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**Question:** *An institution reclassified as held-to-maturity securities previously classified as available-for-sale. The unrealized gain reported on SC860 is being amortized over the remaining maturity of the securities. Since the securities are no longer available-for-sale, is the remaining unrealized gain included on CCR102 and CCR137?*

**Answer:** As long as the institution continues to have unrealized gains or losses included in capital (on SC860), the unrealized gains (losses) must be deducted from (added to) regulatory capital on CCR102 and the amount included in assets must be deducted from assets on CCR137.

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## Q&amp;A No. 60

**SUBJECT:** Mutual Funds  
**LINE(S):** SI387  
**DATE:** March 1, 1999

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**Question:** *An institution has two mutual funds: one is a U.S. government fund and the other is a mortgage-backed ARM fund. The institution holds these investments to maturity; however, they were instructed by their auditors to adjust these mutual funds to fair value on the TFR. These assets are not*



being held for sale, but because the unrealized gains and losses, net of taxes, are reported on SC860 and the mutual funds are not reported as available-for-sale on SI387, an edit failure results. Is this OK?

**Answer:** No. Mutual funds are equity securities and as such are by definition available-for-sale in accordance with SFAS No. 115. Mutual funds should be reported on SC140 (Equity Securities) and on SI385 (Available-for-Sale Securities). The institution must adjust the mutual funds to fair value through an adjustment to SC860.

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#### Q&A No. 61

**SUBJECT:** Risk-Weighting of Unrealized Gains

**LINE(S):** CCR302 and CCR505

**DATE:** March 1, 1999

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**Question:** If an Institution adds back to Tier 2 capital 45% of the unrealized gain of available-for-sale equity securities on CCR302, what portion of the unrealized gains is included in risk-weighted assets?

An institution owns Freddie Mac stock on which there is an unrealized gain that is included on CCR302. Because they risk-weight Freddie Mac stock at 100% on CCR505, they would like to know if they should add back the unrealized gain when risk-weighting the stock. And if so, how much of the unrealized gain should be added back?

**Answer:** For those available-for-sale equity securities where up to 45% of the unrealized gains, net of unrealized losses, before income taxes, are included in Tier 2 capital (on CCR302), 100% of those unrealized gains should be included in assets to risk-weight on CCR505. In other words, if a portion of the unrealized gain, net of unrealized loss, is included in Tier 2 capital on CCR302, then the fair value, not just the historical cost, of the equity security should be risk-weighted. This applies to all equity securities that are permissible for both savings associations and national banks, including Freddie Mac stock, Fannie Mae stock, and mutual funds investing in permissible equity investments.

#### SELECTED WEBSITE ADDRESSES AND LINKS

OTS Website Home Page	<a href="http://www.ots.treas.gov">http://www.ots.treas.gov</a>
FDIC Website Home Page	<a href="http://www.fdic.gov">http://www.fdic.gov</a>
TFR forms, the TFR Instruction Manual, and Financial Reporting Bulletins	<a href="http://www.ots.treas.gov/tfrpage.html">http://www.ots.treas.gov/tfrpage.html</a>
Quarterly aggregate thrift industry data	<a href="http://www.ots.treas.gov/quarter.html">http://www.ots.treas.gov/quarter.html</a>
Year 2000 Information	<a href="http://www.ots.treas.gov/y2k.html">http://www.ots.treas.gov/y2k.html</a>
FDIC-insured Inst. and Industry Financial Data	<a href="http://www.fdic.gov/databank/index.html">http://www.fdic.gov/databank/index.html</a>
Institution Directory and financial data for both savings associations and commercial banks	<a href="http://www2.fdic.gov/call_tfr_rpts/">http://www2.fdic.gov/call_tfr_rpts/</a>
Links to OTS industry statistical data	<a href="http://www.ots.treas.gov/ind-inst-data.html">http://www.ots.treas.gov/ind-inst-data.html</a>
<ul style="list-style-type: none"> <li>• Cost of Funds</li> <li>• Thrift Industry National and Regional Net Annual Chargeoffs by Asset Type</li> <li>• OTS Fact Book (Historical Statistical Information of the Thrift Industry)</li> </ul>	
OTS Press Releases	<a href="http://www.ots.treas.gov/news.html">http://www.ots.treas.gov/news.html</a>
OTS Regulatory Bulletins	<a href="http://www.ots.treas.gov/bltn_regulatory.html">http://www.ots.treas.gov/bltn_regulatory.html</a>
OTS Thrift Bulletins	<a href="http://www.ots.treas.gov/bltn_thrift.html">http://www.ots.treas.gov/bltn_thrift.html</a>
Links to OTS Rules and other guidance	<a href="http://www.ots.treas.gov/laws-regs.html">http://www.ots.treas.gov/laws-regs.html</a>